

Principles of Microeconomics

Econ 2103 Spring 2017

Venue: G007, LSK Bldg
Time: Tuesday and Thursday
4:30PM - 5:50PM
Start: Feb 2
End: May 9

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Teaching Assistant

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Course Description

This course covers the theory of modern microeconomics. We will study how individual actors such as consumers, investors and governments make decisions given scarce resources. Building on this, we will understand the market mechanism of resource allocation, and how to respond to market failure.

Learning Objectives

On completion of the course, students are expected to be able to

- identify key concepts in microeconomics.
- describe basic models, such as demand and supply.
- demonstrate how these models work.
- explain basic economic phenomena, using economic models.
- make prediction about the outcome in a market, using economic models.

Assessment Scheme

- The course grade will be determined by following components.
 - Problem Sets: 0%
 - 2 Midterm Exams (in class): $25\% \times 2$
 - Final Exam: 50%
 - This distribution will not be changed throughout the semester.
- The midterm exams are held in class and scheduled on **February 28** and **March 30**.
- All exams are closed-book exams, and cumulative.
- Note that there might be a few bonus points for some in-class experiments (or quizzes) or assigned open questions.

Textbooks

Parkin, *Microeconomics*, Pearson International.

Module Objectives

Chapter 1 What is Economics?

- Define economics and distinguish between microeconomics and macroeconomics
- Explain the two big questions of economics
- Explain the key ideas that define the economic way of thinking
- Explain how economics go about their work as social scientists.
- Explain different types of diagrams
- Explain how to express relationships among variables in a graph.

Chapter 2 The Economic Problem

- Define the production possibilities frontier and calculate opportunity cost.
- Distinguish between production possibilities and preferences and describe and efficient allocation of resources.
- Explain how current production choices expand future production possibilities
- Explain how specialization and trade expand our production possibilities
- Describe the economic institutions that coordinate decisions.

Chapter 3 Demand and Supply

- Describe a competitive market and think about a price as an opportunity cost
- Explain the influences on demand
- Explain the influences on supply
- Explain how demand and supply determine prices and quantities bought and sold
- Use demand and supply to make predications about changes in prices and quantities

Chapter 4 Elasticity

- Define, calculate and explain the factors that influence
- the price elasticity of demand
- the cross elasticity of demand
- the income elasticity of demand
- the elasticity of supply

Chapter 5 Efficiency and Equity

- Describe the alternative methods of allocating scarce resources

- Explain the connection between demand and marginal benefit and define consumer surplus
- Explain the connection between supply and marginal cost and define producer surplus
- Explain the conditions under which markets are efficient and inefficient
- Explain the main ideas about fairness and evaluate claims that markets result in unfair outcomes

Chapter 6 Government Actions in Markets

- Explain how rent ceilings create housing shortages and inefficiency
- Explain how minimum wage laws create unemployment and inefficiency
- Explain the effects of a tax
- Explain the effects of production quotas and subsidies on production, costs, and prices
- Explain how markets for illegal goods work

Chapter 8 Utility and Demand

- Describe preferences using the concept of utility, distinguish between total utility and marginal utility, and explain the marginal utility theory of consumer choice
- Use marginal utility theory to predict the effects of changes in prices and incomes and to explain the paradox of value
- Describe some new ways of explaining consumer choices

Chapter 9 Possibilities, Preferences, and Choices

- Describe a household's budget line and show how it changes when prices or income change
- Use indifference curves to map preferences and explain the principle of diminishing marginal rate of substitution
- Predict the effects of changes in prices and income on consumption choices
- Predict the effects of changes in wage rates on work-leisure choices

Chapter 10 Organizing Production

- Explain what a firm is and describe the economic problem that all firms face
- Distinguish between technological efficiency and economic efficiency
- Define and explain the principal-agent problem and describe how different types of business organizations cope with this problem
- Describe and distinguish between different types of markets in which firms operate
- Explain why markets coordinate some economic activities and firms coordinate others

Chapter 11 Output and Costs

- Distinguish between the short run and the long run
- Explain the relationship between a firm's output and labor employed in the short run

- Explain the relationship between a firm's output and costs in the short run and derive a firm's short-run cost curves
- Explain the relationship between a firm's output and costs in the long run and derive a firm's long-run average cost curve

Chapter 12 Perfect Competition

- Define perfect competition
- Explain how a firm makes its output decision and why it sometimes shuts temporarily and lays off its workers
- Explain how price and output are determined in a perfectly competitive market
- Explain why firms enter and leave a competitive market and the consequences of entry and exit
- Predict the effects of a change in demand and of a technological advance
- Explain why perfect competition is efficient.

Chapter 13 Monopoly

- Explain how the monopoly arises and distinguish between single-price monopoly and price discriminating monopoly
- Explain how single price monopoly determines its output and price
- Compare the performance and efficiency of single-price monopoly and competition
- Explain how price discrimination increases profit
- Explain how monopoly regulation influences output price economic profit and efficiency

Chapter 15 Oligopoly

- Define and identify oligopoly
- Explain two traditional oligopoly models
- Use game theory to explain how price and output are determined in oligopoly
- Use game theory to explain other strategic decisions
- Describe the antitrust laws that regulate oligopoly

Chapter 20 Uncertainty and Information

- Explain how people make decisions when they are uncertain about the consequences
- Explain how markets enable people to buy and sell risk
- Explain how markets cope when buyers and sellers have private information
- Explain how the presence of uncertainty and incomplete information influences the ability of markets to achieve an efficient allocation of resources

Learning environment

Matured conduct in classroom is the requirement for this course. Distractive behaviors such as use of cell phone, instant messaging and chatting are not tolerated. Violation of this rule will result in significant deduction of points from student's grade. Please refer to following website for the guideline for good learning environment:

http://www.ust.hk/vpao/conduct/good_learning_experience.pps

Academic Honesty and Integrity

Honesty and Integrity is central value in HKUST. Please be aware of the importance and maintain high standard of honesty in the problem sets and examinations in this course. Familiarize yourself to the university rules and the HKUST academic honor code by visiting following website:

<http://www.ust.hk/vpao/integrity/>

Intended Learning Outcomes

Please refer to following website:

<http://www.bm.ust.hk/sbmlern/eng/thirdcat.php?sid=5&thirdid=3>